

**STRATFORD
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2005

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STRATFORD COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2004 Election)

Rick Woodard	President	2005
Mark Anderson		2006
Karen Harrill		2004
Cheryl Lindmark		2004
Toni Larson	(appointed July, 2004)	2004

(After September, 2004 Election)

Rick Woodard	President	2005
Cheryl Lindmark		2007
Mark Anderson		2006
Karen Harrill	(resigned June, 2005)	
Tricia Rose		2005

SCHOOL OFFICIALS

Sarah Binder	Superintendent
Linda Swedlund	District Secretary/ Treasurer

Independent Auditor's Report

To The Board of Education of the
Stratford Community School District:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Stratford Community School District, Stratford, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of Stratford Community School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated July 25, 2005 on our consideration of Stratford Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 31 thru 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Stratford Community School District's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report. The financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

July 25, 2005

GREENE COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

Stratford Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$1,508,848 in fiscal 2004 to \$1,634,328 in fiscal 2005, while General Fund expenditures increased from \$1,408,336 in fiscal year 2004 to \$1,648,864 in fiscal 2005.
- The increase in General Fund revenues was attributable to an increase in state appropriations. The increase in expenditures was due primarily to an increase in instructional costs as well as increase in the amount of money spent out of the General Fund for the Food Service program. The General Fund balance decreased by 3% primarily due to the reduction in expenditures.
- An increase in interest rates during the past fiscal year, resulted in an increase in interest earnings in the General Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
- The statements for governmental funds explain how basic services, such as regular and special education, were financed in the short term, as well as what remains for future spending.
- The statement for proprietary funds offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Stratford Community School District

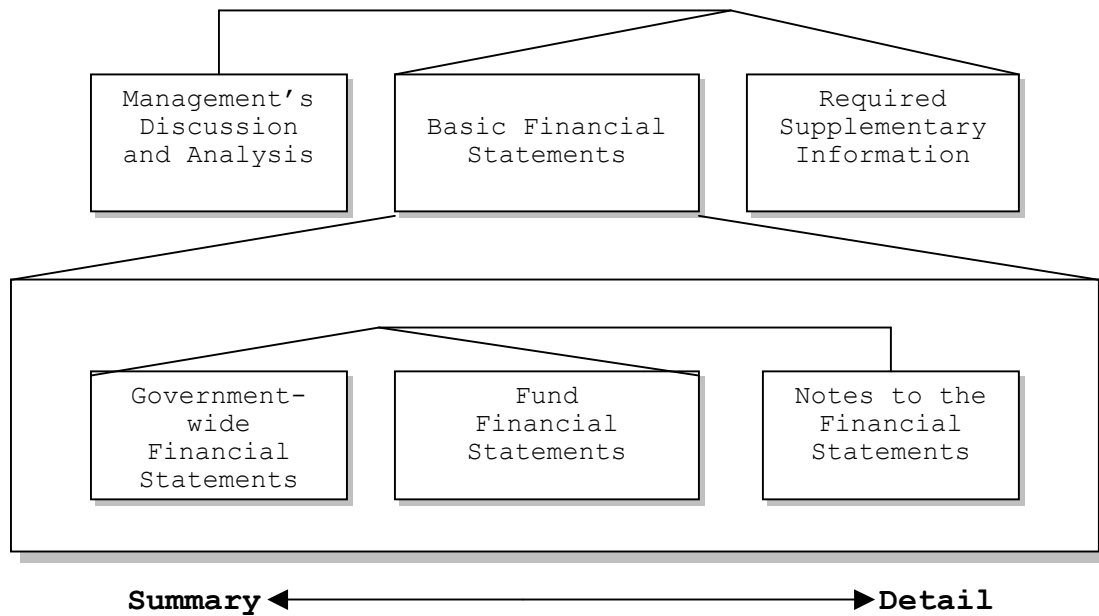


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain the remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Financial Statement			
Statement	Portion of District's Activities Covered	Types of Information Contained	Where to Find It
Statement of Financial Position	Assets, Liabilities, and Net Position	Assets, Liabilities, and Net Position	Page 10
Statement of Financial Position	Assets, Liabilities, and Net Position	Assets, Liabilities, and Net Position	Page 10
Statement of Financial Position	Assets, Liabilities, and Net Position	Assets, Liabilities, and Net Position	Page 10
Statement of Financial Position	Assets, Liabilities, and Net Position	Assets, Liabilities, and Net Position	Page 10
Statement of Financial Position	Assets, Liabilities, and Net Position	Assets, Liabilities, and Net Position	Page 10

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The two government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are divided into two categories:

- **Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid, finance most of these activities.
- **Business-type activities:** The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.
- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's enterprise funds (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	2005	2004	2005	2004	2005	2004	2004-2005
	\$	\$	\$	\$	\$	\$	%
Current assets	1,598	1,612	103	70	1,701	1,682	1.12%
Capital assets	<u>1,487</u>	<u>1,353</u>	<u>5</u>	<u>4</u>	<u>1,492</u>	<u>1,357</u>	<u>9.05%</u>
Total assets	<u><u>3,085</u></u>	<u><u>2,965</u></u>	<u><u>108</u></u>	<u><u>74</u></u>	<u><u>3,193</u></u>	<u><u>3,039</u></u>	<u><u>4.82%</u></u>
Current liabilities	725	755	-	-	725	755	-4.14%
Non-current liabilities	<u>1,110</u>	<u>1,175</u>	<u>-</u>	<u>-</u>	<u>1,110</u>	<u>1,175</u>	<u>-5.86%</u>
Total liabilities	<u><u>1,835</u></u>	<u><u>1,930</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>1,835</u></u>	<u><u>1,930</u></u>	<u><u>-5.18%</u></u>
Net Assets							
Invested in capital assets, net of related debt	377	178	5	4	382	182	52.36%
Restricted	267	294	-	-	267	294	-10.11%
Unrestricted	<u>606</u>	<u>563</u>	<u>103</u>	<u>70</u>	<u>709</u>	<u>633</u>	<u>10.72%</u>
Total net assets	<u><u>1,250</u></u>	<u><u>1,035</u></u>	<u><u>108</u></u>	<u><u>74</u></u>	<u><u>1,358</u></u>	<u><u>1,109</u></u>	<u><u>18.34%</u></u>

The District's combined net assets increased 11% from June 30, 2004 to June 30, 2005. The increase occurred as a combined result of increased tax revenue from the state of Iowa and using current resources to purchase fixed assets that will be depreciated over their useful lives.

Changes in net assets - figure A-4 shows the changes in net assets for the year ended June 30, 2005.

Figure A-4
Change in Net Assets
(expressed in thousands)

	Governmental Activities	Business-type Activities	Total School District
	\$	\$	\$
Revenues:			
Program revenues:			
Charges for service and sales	51	39	90
Operating grants, contributions and restricted interest	245	68	313
General revenues:			
Property tax	683	-	683
Income surtax	123	-	123
Local option sales tax	94	-	94
Unrestricted state grants	812	-	812
Unrestricted investment earnings	10	-	10
Other	7	-	7
Total revenues	<u>2,025</u>	<u>107</u>	<u>2,132</u>
Program expenses:			
Governmental activities:			
Instruction	1,204	-	1,204
Support Services	410	-	410
Non-instructional programs	21	74	95
Other expenses	174	-	174
Total expenses	<u>1,809</u>	<u>74</u>	<u>1,883</u>
Change in net assets	<u>216</u>	<u>33</u>	<u>249</u>

Property tax and unrestricted state grants account for 70% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 86% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$2,025,362 and expenses were \$1,809,712.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(expressed in thousands)		
	Total Cost of Services	Net Cost of Services
	\$	\$
Instruction	1,204	1,008
Support Services	410	377
Non-instructional programs	21	21
Other expenses	<u>174</u>	<u>108</u>
Totals	<u>1,809</u>	<u>1,514</u>

- The cost financed by users of the District's programs was \$51,202.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$201,165.
- The net cost of governmental activities was financed with \$683,363 in property tax, \$812,393 in state foundation aid, and \$9,557 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$107,312 and expenses were \$73,607. The District's business-type activities include the School Nutrition and Day Care Funds. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted Stratford Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of 1,250,192, a twenty one percent increase over last year's ending fund balances of \$1,034,542. Depreciation expenses totaled over \$40,000. Increased state revenues and local option sales taxes were the primary reasons for the increase.

Governmental Fund Highlights

- The District maintained its General Fund balance by cutting expenses from portions of the budget, primarily administration and other non-instructional costs.
- The District continues to collect the school Infrastructure Local Option Sales Tax. No definite plans have been made for this money, however, it will continue to increase as Boone County will now also be collecting the tax.

Proprietary Fund Highlights

The School Nutrition Fund balance decreased due primarily reduced participation. The Day Care Fund grew substantially due to contributions and grant activity.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 35 and 36.

Legal Budgetary Highlights

The District's receipts were over \$23,000 greater than budgeted receipts, a variance of 1%. The most significant variance resulted from the District receiving more in state aid than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$1.5 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 10% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$35,394.

The original cost of the District's capital assets was \$2,211,686. Governmental funds account for \$2,202,709, with the remainder of \$8,977 accounted for in the Proprietary, School Nutrition Fund.

Figure A-6							
Condensed Statement of Net Assets							
(expressed in thousands)							
Governmental		Business-type		Total		Total	
Activities		Activities		School District		Change	
June 30,		June 30,		June 30,		June 30,	
2005	2004	2005	2004	2005	2004	2004-2005	
\$	\$	\$	\$	\$	\$		
Land	5	5	-	5	5	0.00%	
Buildings	1,302	1,332	-	1,302	1,332	-2.25%	
Construction in progress	152	-	-	152	-	100.00%	
Furniture and equipment	28	16	5	33	20	65.00%	
Totals	1,487	1,353	5	1,492	1,357	9.95%	

Long-Term Debt

At June 30, 2005, the District had \$1,110,000 in general obligation, long-term debt outstanding. This represents a decrease of approximately 6% from last year (See Figure A-7). Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations
(expressed in thousands)

	Total		Total
	District		Change
	June 30,		June 30,
	2005	2004	2004-2005
	\$	\$	
General obligation bonds	1,110	1,175	-5.53%
Total	1,110	1,175	-5.53%

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The SILO tax was passed in Boone County and money began to be received by the District in July of 2004. This supplemented the current receipts.
- The District has experienced declining enrollment the past several years.
- Allowable growth of 4% is inadequate to fund existing programs without dipping into existing reserves.
- Iowa law requires that unsettled salary negotiations for teachers go to mandatory arbitration. Invariably arbitrated settlements are higher than current levels of allowable growth in funding (not including the budget cuts after the contracts have been settled and people have been hired).
- Health insurance continues to be a very costly item to the District. Even though concessions have been made by employees in regard to deductibles, and coinsurance, other solutions need to be found. The skyrocketing cost of health care and the insurance to cover the cost will soon be unattainable by many.
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sarah Binder, Superintendent, Stratford Community School District, 1000 Shakespeare Ave, Stratford, IA 50249.

Basic Financial Statements

STRATFORD COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	796,125	100,020	896,145
Receivables:			
Property tax			
Current year	7,873	-	7,873
Succeeding year	711,056	-	711,056
Income surtax	56,346	-	56,346
Due from other governments	26,787	-	26,787
Inventories	-	2,543	2,543
Capital assets, net of accumulated depreciation (note 3)	1,487,202	5,384	1,492,586
Total assets	3,085,389	107,947	3,193,336
Liabilities			
Accounts payable	9,668	-	9,668
Accrued interest payable	4,473	-	4,473
Deferred revenue:			
Succeeding year property tax	711,056	-	711,056
Long term liabilities:			
Portion due within one year:			
General obligation bonds	65,000	-	65,000
Portion due after one year:			
General obligation bonds	1,045,000	-	1,045,000
Total liabilities	1,835,197	-	1,835,197
Net Assets			
Invested in capital assets, net of related debt	377,202	5,384	382,586
Restricted for:			
Management fund	68,844		68,844
Physical plant and equipment levy	163,095	-	163,095
Capital projects	34,490	-	34,490
Unrestricted	606,561	102,563	709,124
Total net assets	1,250,192	107,947	1,358,139

See notes to financial statements.

STRATFORD COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
	\$	\$	\$	\$	\$	\$
<u>Functions/Programs</u>						
Governmental activities:						
Instruction:						
Regular instruction	932,340	47,241	88,788	(796,311)	-	(796,311)
Special instruction	259,671	1,479	47,818	(210,374)	-	(210,374)
Other instruction	12,426	-	11,405	(1,021)	-	(1,021)
	<u>1,204,437</u>	<u>48,720</u>	<u>148,011</u>	<u>(1,007,706)</u>	<u>-</u>	<u>(1,007,706)</u>
Support services:						
Student services	7,239	-	-	(7,239)	-	(7,239)
Instructional staff services	13,239	-	-	(13,239)	-	(13,239)
Administration services	147,002	-	-	(147,002)	-	(147,002)
Operation and maintenance of plant services	146,667	-	30,615	(116,052)	-	(116,052)
Transportation services	96,033	2,482	-	(93,551)	-	(93,551)
	<u>410,180</u>	<u>2,482</u>	<u>30,615</u>	<u>(377,083)</u>	<u>-</u>	<u>(377,083)</u>
Non-instructional programs	<u>20,875</u>	<u>-</u>	<u>-</u>	<u>(20,875)</u>	<u>-</u>	<u>(20,875)</u>
Other expenditures:						
Facilities acquisition	21,901	-	500	(21,401)	-	(21,401)
Interest on long-term debt	57,255	-	194	(57,061)	-	(57,061)
AEA flowthrough	65,464	-	65,464	-	-	-
Depreciation (unallocated)*	29,600	-	-	(29,600)	-	(29,600)
	<u>174,220</u>	<u>-</u>	<u>66,158</u>	<u>(108,062)</u>	<u>-</u>	<u>(108,062)</u>
Total governmental activities	1,809,712	51,202	244,784	(1,513,726)	-	(1,513,726)

STRATFORD COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

	Program Revenues				
		Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Expenses	Charges for Service	Interest	Activities	Activities	Total
\$	\$	\$	\$	\$	\$
Business-Type activities:					
Non-instructional programs	73,607	38,908	68,404	-	33,705
Total	<u>1,883,319</u>	<u>90,110</u>	<u>313,188</u>	<u>(1,513,726)</u>	<u>33,705</u>
General revenues:					
Property tax levied for:					
General purposes			485,267	-	485,267
Management Fund			29,958	-	29,958
Capital outlay			45,722	-	45,722
Debt service			122,416	-	122,416
Income surtax			123,007	-	123,007
School Infrastructure Local Option Sales Tax			93,878	-	93,878
Unrestricted state grants			812,393	-	812,393
Unrestricted investment earnings			9,557	-	9,557
Other			7,178	-	7,178
Total general revenue			<u>1,729,376</u>	<u>-</u>	<u>1,729,376</u>
Change in net assets			215,650	33,705	249,355
Net assets beginning of year			<u>1,034,542</u>	<u>74,242</u>	<u>1,108,784</u>
Net assets end of year			<u>1,250,192</u>	<u>107,947</u>	<u>1,358,139</u>

* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

STRATFORD COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2005

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	552,340	100	7,703	235,982	796,125
Receivables:					
Property tax:					
Current year	5,594	1,387	-	892	7,873
Succeeding year	508,451	123,680	-	78,925	711,056
Income surtax	56,346	-	-	-	56,346
Due from other governments	-	-	26,787	-	26,787
Total assets	<u>1,122,731</u>	<u>125,167</u>	<u>34,490</u>	<u>315,799</u>	<u>1,598,187</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	9,668	-	-	-	9,668
Deferred revenue:					
Succeeding year property tax	508,451	123,680	-	78,925	711,056
Succeeding year income surtax	56,346	-	-	-	56,346
Total liabilities	<u>574,465</u>	<u>123,680</u>	<u>-</u>	<u>78,925</u>	<u>777,070</u>
Fund balances:					
Reserved for:					
Capital projects	-	-	34,490	-	34,490
Unreserved	548,266	1,487	-	236,874	786,627
Total fund balances	<u>548,266</u>	<u>1,487</u>	<u>34,490</u>	<u>236,874</u>	<u>821,117</u>
Total liabilities and fund balance	<u>1,122,731</u>	<u>125,167</u>	<u>34,490</u>	<u>315,799</u>	<u>1,598,187</u>

See notes to financial statements.

STRATFORD COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2005

Total fund balances of governmental funds (Exhibit C)	\$ 821,117
Amounts reported for governmental activities in the statement of net assets are different because:	
Income surtax receivable at June 30, 2005 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.	56,346
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,487,202
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	(4,473)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
General obligation bonds	<u>(1,110,000)</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 1,250,192</u></u>

STRATFORD COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2005

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	551,928	122,416	93,878	75,680	843,902
Tuition	45,413	-	-	-	45,413
Other	23,583	100	500	41,960	66,143
State sources	964,331	94	-	60	964,485
Federal sources	49,073	-	-	-	49,073
Total revenues	1,634,328	122,610	94,378	117,700	1,969,016
Expenditures:					
Instruction:					
Regular instruction	932,340	-	-	-	932,340
Special instruction	259,671	-	-	-	259,671
Other instruction	-	-	-	12,426	12,426
	1,192,011	-	-	12,426	1,204,437
Support services:					
Student services	7,239	-	-	-	7,239
Instructional staff services	11,439	-	-	1,800	13,239
Administration services	146,852	-	-	150	147,002
Operation and maintenance of plant services	97,293	-	-	49,374	146,667
Transportation services	107,691	-	-	-	107,691
	370,514	-	-	51,324	421,838
Non-instructional programs:					
Food service operations	20,875	-	-	-	20,875
Other expenditures:					
Facilities acquisition and construction services	-	-	94,534	79,552	174,086
Principal on long-term debt	-	65,000	-	-	65,000
Interest on long-term debt	-	57,580	-	-	57,580
AEA flowthrough	65,464	-	-	-	65,464
	65,464	122,580	94,534	79,552	362,130
Total expenditures	1,648,864	122,580	94,534	143,302	2,009,280

STRATFORD COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2005

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Excess (Deficiency) of revenues over (under) expenditures	(14,536)	30	(156)	(25,602)	(40,264)
Other financing sources (uses):					
Operating transfers in	-	2,112	-	-	2,112
Operating transfers out	-	-	(2,112)	-	(2,112)
	-	2,112	(2,112)	-	-
Net change in fund balances	(14,536)	2,142	(2,268)	(25,602)	(40,264)
Fund balances beginning of year	562,802	(655)	36,758	262,476	861,381
Fund balances end of year	548,266	1,487	34,490	236,874	821,117

See notes to financial statements.

STRATFORD COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2005

Net change in fund balances - total governmental funds (Exhibit E) \$ (40,264)

**Amounts reported for governmental activities in the
statement of activities are different because:**

Income surtax receivable at June 30, 2005 is not recognized as income until received in the governmental funds, however it is shown as a revenue in the Statement of Activities. 56,346

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 168,889	
Depreciation expense	<u>(34,646)</u>	134,243

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 65,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is reported as an expenditure in the funds when due. In the Statement of Activities, interest expense is recorded as the interest accrues, regardless of when it is due. 325

Change in net assets of governmental activities (Exhibit B) \$ 215,650

STRATFORD COMMUNITY SCHOOL DISTRICT

Combining Statement of Net Assets

Proprietary Funds

June 30, 2005

	School Nutrition	Day Care	Total
	\$	\$	
Assets			
Cash and pooled investments	4,507	95,513	100,020
Inventories	2,543	-	2,543
Capital assets, net of accumulated depreciation	5,384	-	5,384
Total assets	<u>12,434</u>	<u>95,513</u>	<u>107,947</u>
Net assets			
Invested in capital assets, net of related debt	5,384	-	5,384
Unrestricted	7,050	95,513	102,563
Total net assets	<u>12,434</u>	<u>95,513</u>	<u>107,947</u>

See notes to financial statements.

STRATFORD COMMUNITY SCHOOL DISTRICT

Combining Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Funds

Year ended June 30, 2005

	School Nutrition	Day Care	Total
	\$	\$	\$
Operating revenue:			
Local sources:			
Charges for services	25,954	12,954	38,908
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	16,779	-	16,779
Benefits	2,248	-	2,248
Supplies	23,628	-	23,628
Depreciation	748	-	748
	43,403	-	43,403
Other enterprise operations:			
Salaries	-	24,136	24,136
Benefits	-	3,037	3,037
Supplies	-	3,031	3,031
	-	30,204	30,204
Total operating expenses	43,403	30,204	73,607
Operating (loss)	(17,449)	(17,250)	(34,699)
Non-operating revenues:			
Local sources	15	49,116	49,131
State sources	586	-	586
Federal sources	18,687	-	18,687
	19,288	49,116	68,404
Change in net assets	1,839	31,866	33,705
Net assets beginning of year	10,595	63,647	74,242
Net assets end of year	12,434	95,513	107,947

See notes to financial statements.

STRATFORD COMMUNITY SCHOOL DISTRICT

Combining Statement of Cash Flows

Proprietary Fund

Year ended June 30, 2005

	School Nutrition	Community Education	Total
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of services	25,954	12,954	38,908
Cash payments to employees for services	(19,027)	(27,173)	(46,200)
Cash payments to suppliers for goods or services	(19,452)	(3,031)	(22,483)
Net cash provided by (used in) operating activities	(12,525)	(17,250)	(29,775)
Cash flows from non-capital financing activities:			
Contributions	-	48,000	48,000
State grants received	586	-	586
Federal grants received	12,779	-	12,779
Net cash provided by non-capital financing activities	13,365	48,000	61,365
Cash flows from capital financing activities:			
Acquisition of fixed assets	(2,150)	-	(2,150)
Cash flows from investing activities:			
Interest on investments	15	1,116	1,131
Net increase (decrease) in cash and cash equivalents	(1,295)	31,866	30,571
Cash and cash equivalents beginning of year	5,802	63,647	69,449
Cash and cash equivalents end of year	4,507	95,513	100,020
Reconciliation of operating income (loss) to net cash used in operating activities:			
Operating income (loss)	(17,449)	(17,250)	(34,699)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:			
Depreciation	748	-	748
Commodities used	5,908	-	5,908
(Increase) in inventory	(1,732)	-	(1,732)
	(12,525)	(17,250)	(29,775)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:			
Current assets:			
Cash	4,507	95,513	100,020

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received federal commodities valued at \$5,908.

STRATFORD COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The Stratford Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Stratford, Iowa, and agricultural area in Boone, Hamilton, and Webster Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Stratford Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Stratford Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Hamilton County Assessor's Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statements of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is used to account for the payment of interest and principal on the District's long-term debt.

The Capital Projects Fund is used to account for funds raised by the one cent School Infrastructure Local Option Sales Tax. These funds are being used for debt retirement and infrastructure expenses.

The District reports the following major proprietary funds:

The District's proprietary funds are the Day Care and School Nutrition Fund. These funds are used to account for the food service operations of the District as well as a daycare facility.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2004.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2005.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Disbursements exceeded the amount budgeted in the Other Expenditures function.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2005.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	5,000	-	-	5,000
Capital assets being depreciated:				
Buildings	1,877,000	-	-	1,877,000
Construction in Progress	-	152,185	-	152,185
Furniture and Equipment	151,820	16,704	-	168,524
Total capital assets being depreciated	2,028,820	168,889	-	2,197,709
Less accumulated depreciation for:				
Buildings	545,000	29,600	-	574,600
Furniture and Equipment	135,861	5,046	-	140,907
Total accumulated depreciation	680,861	34,646	-	715,507
Total capital assets being depreciated, net	1,347,959	134,243	-	1,482,202
Governmental activities, capital assets, net	1,352,959	134,243	-	1,487,202
Business type activities:				
Furniture and equipment	9,535	2,150	2,708	8,977
Less accumulated depreciation	5,553	748	2,708	3,593
Business type activities capital assets, net	3,982	1,402	-	5,384
Depreciation expense was charged to the following functions:				
Governmental activities:				
Support services:				
Transportation				5,046
Unallocated				29,600
				34,646
Business Type activities:				
Food service operations				748

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$41,617, \$38,266, and \$37,236 respectively, equal to the required contributions for each year.

(5) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$65,464 for year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) Risk Management

Stratford Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Bonds Payable

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006	6.00%	\$ 53,680	70,000	123,680
2007	4.50	49,480	75,000	124,480
2008	4.50	46,105	75,000	121,105
2009	4.60	42,730	80,000	122,730
2010	4.70	39,050	85,000	124,050
2011	4.70	35,055	90,000	125,055
2012	4.80	30,825	90,000	120,825
2013	4.80	26,505	95,000	121,505
2014	4.80	21,945	105,000	126,945
2015	4.90	16,905	110,000	126,905
2016	4.90	11,515	115,000	126,515
2017	4.90	5,880	120,000	125,880
Total		<u>\$379,635</u>	<u>1,110,000</u>	<u>1,489,675</u>

(8) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2005 is as follows:

	General Obligation Bonds
Balance beginning of year	\$1,175,000
Additions	-
Reductions	<u>65,000</u>
Balance end of year	<u>\$1,110,000</u>

(9) Commitments

The District approved \$103,296 for the demolition of the existing bus barn and construction of new bus barn.

(10) Interfund Transfers

The detail of interfund transfers for the year ending June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$2,112</u>

Required Supplementary Information

STRATFORD COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Types	Proprietary Fund Types	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Actual	Actual	Actual	Original	Final	
	\$	\$	\$	\$	\$	\$
Receipts:						
Local sources	933,497	88,039	1,021,536	957,013	957,013	64,523
State sources	964,485	586	965,071	978,267	978,267	(13,196)
Federal sources	49,073	12,779	61,852	90,000	90,000	(28,148)
Total receipts	<u>1,947,055</u>	<u>101,404</u>	<u>2,048,459</u>	<u>2,025,280</u>	<u>2,025,280</u>	<u>23,179</u>
Disbursements:						
Instruction	1,203,931	-	1,203,931	1,821,566	1,821,566	617,635
Support services	421,838	-	421,838	1,049,019	1,049,019	627,181
Non-instructional programs	20,875	70,833	91,708	187,719	187,719	96,011
Other expenditures	357,130	-	357,130	244,226	244,226	(112,904)
Total disbursements	<u>2,003,774</u>	<u>70,833</u>	<u>2,074,607</u>	<u>3,302,530</u>	<u>3,302,530</u>	<u>1,227,923</u>
Excess (deficiency) of receipts over (under) disbursements	(56,719)	30,571	(26,148)	(1,277,250)	(1,277,250)	1,251,102
Other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,000</u>	<u>38,000</u>	<u>(38,000)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(56,719)	30,571	(26,148)	(1,239,250)	(1,239,250)	1,213,102
Balance beginning of year	<u>852,844</u>	<u>69,449</u>	<u>922,293</u>	<u>866,430</u>	<u>866,430</u>	<u>55,863</u>
Balance end of year	<u>796,125</u>	<u>100,020</u>	<u>896,145</u>	<u>(372,820)</u>	<u>(372,820)</u>	<u>1,268,965</u>

See accompanying independent auditor's report.

STRATFORD COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Type		
	Cash	Accrual	Modified
	<u>Basis</u>	<u>Adjustments</u>	<u>Accrual</u>
	\$	\$	\$
Revenues	1,947,055	21,961	1,969,016
Expenditures	<u>2,003,774</u>	<u>5,506</u>	<u>2,009,280</u>
Net	(56,719)	16,455	(40,264)
Other financing sources (uses)	-	-	-
Beginning fund balances	<u>852,844</u>	<u>8,537</u>	<u>861,381</u>
Ending fund balances	<u><u>796,125</u></u>	<u><u>24,992</u></u>	<u><u>821,117</u></u>

	Proprietary Fund Type		
	Enterprise		
	Cash	Accrual	Accrual
	<u>Basis</u>	<u>Adjustments</u>	<u>Basis</u>
	\$	\$	\$
Revenues	101,404	5,908	107,312
Expenditures	<u>70,833</u>	<u>2,774</u>	<u>73,607</u>
Net	30,571	3,134	33,705
Beginning fund balances	<u>69,449</u>	<u>4,793</u>	<u>74,242</u>
Ending fund balances	<u><u>100,020</u></u>	<u><u>7,927</u></u>	<u><u>107,947</u></u>

See accompanying independent auditor's report.

STRATFORD COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2005, disbursements exceeded the amount budgeted in the Other Expenditures function. The District did not exceed the General Fund unspent authorized budget.

Other Supplementary Information

STRATFORD COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2005

	Management	Student	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	68,502	4,935	162,545	235,982
Property tax receivable:				
Current year	342	-	550	892
Succeeding year	<u>30,000</u>	<u>-</u>	<u>48,925</u>	<u>78,925</u>
Total assets	<u>98,844</u>	<u>4,935</u>	<u>212,020</u>	<u>315,799</u>
Liabilities and Fund Equity				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	<u>30,000</u>	<u>-</u>	<u>48,925</u>	<u>78,925</u>
	<u>30,000</u>	<u>-</u>	<u>48,925</u>	<u>78,925</u>
Fund equity:				
Unreserved fund balance	<u>68,844</u>	<u>4,935</u>	<u>163,095</u>	<u>236,874</u>
	<u>68,844</u>	<u>4,935</u>	<u>163,095</u>	<u>236,874</u>
Total liabilities and fund equity	<u>98,844</u>	<u>4,935</u>	<u>212,020</u>	<u>315,799</u>

See accompanying independent auditor's report.

STRATFORD COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Nonmajor Special Revenue Funds

Year ended June 30, 2005

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	29,958	-	45,722	75,680
Other	1,083	11,405	29,472	41,960
State sources	23	-	37	60
Total revenues	<u>31,064</u>	<u>11,405</u>	<u>75,231</u>	<u>117,700</u>
Expenditures:				
Instruction:				
Co-curricular instruction	-	12,426	-	12,426
Support services:				
Instructional staff support services	-	-	1,800	1,800
Administration services	-	-	150	150
Plant operation and maintenance	31,245	-	18,129	49,374
Other expenditures:				
Facilities acquisition and construction	-	-	79,552	79,552
Total expenditures	<u>31,245</u>	<u>12,426</u>	<u>99,631</u>	<u>143,302</u>
(Deficiency) of revenues (under) expenditures	(181)	(1,021)	(24,400)	(25,602)
Fund balances beginning of year	<u>69,025</u>	<u>5,956</u>	<u>187,495</u>	<u>262,476</u>
Fund balances end of year	<u><u>68,844</u></u>	<u><u>4,935</u></u>	<u><u>163,095</u></u>	<u><u>236,874</u></u>

See accompanying independent auditor's report.

STRATFORD COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Book Club	380	96	96	380
Annuals	1,680	-	-	1,680
Miscellaneous	1,821	10,117	11,113	825
Music	345	912	1,067	190
PO	97	-	-	97
Library	701	-	-	701
Extra activities	932	280	150	1,062
Totals	<u>5,956</u>	<u>11,405</u>	<u>12,426</u>	<u>4,935</u>

See accompanying independent auditor's report.

STRATFORD COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Revenues

	Years ended June 30,			
	2005	2004	2003	2002
	\$	\$	\$	\$
Local sources:				
General	551,928	578,640	594,281	543,566
Special revenue	75,680	106,004	106,413	104,934
Debt service	122,416	126,264	123,348	123,089
Capital projects	93,878	15,992	10,290	11,227
	<u>843,902</u>	<u>826,900</u>	<u>834,332</u>	<u>782,816</u>
State sources:				
General	964,331	804,756	805,998	830,516
School nutrition	586	620	662	631
	<u>964,917</u>	<u>805,376</u>	<u>806,660</u>	<u>831,147</u>
Federal sources:				
General	49,073	52,880	69,886	29,043
School nutrition	18,687	17,182	17,186	15,270
	<u>67,760</u>	<u>70,062</u>	<u>87,072</u>	<u>44,313</u>
Total	<u>1,876,579</u>	<u>1,702,338</u>	<u>1,728,064</u>	<u>1,658,276</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial
reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

To the Board of Education of the
Stratford Community School District:

Compliance

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Stratford Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statement listed in the table of contents, and have issued our report thereon date July 25, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Stratford Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 05-I-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether, Stratford Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed immaterial instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Stratford Community School District and other parties to whom Stratford Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Stratford Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

July 25, 2005

STRATFORD COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

05-I-A SEGREGATION OF DUTIES

Comment - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted the duties of the individual include: 1) preparation of checks, signing of checks, recording the transactions in the journals, and reconciling the bank; 2) receiving cash receipts, preparing the receipt, making up the bank deposit, and recording the transaction in the journals.

Recommendation - We realize that with a limited number of administrative employees, segregation of duties to eliminate incompatible duties is difficult. We also realize the job description, as defined by the Code of Iowa, of certain members of the administrative staff make the segregations even more difficult and the elimination of the possibility of administrative override of the system improbable. However, we feel the board and administration should review these policies annually and with each personnel change to insure the best possible control climate is maintained.

Response - We will investigate alternative procedures which will improve our system of internal controls.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

05-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

05-II-B Certified Budget - Disbursements for the year ended June 30, 2005, exceeded the certified budget amounts in the other expenditures function.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed budget.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

05-II-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

05-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

STRATFORD COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Required Statutory Reporting:
(continued):

05-II-E Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Rick Woodard Board President	Property Insurance	\$31,245

Recommendation - The District should consult legal counsel to determine the disposition of this matter.

Response - We will consult our attorney.

Conclusion - Response accepted.

05-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

05-II-G Board Minutes - We noted no items requiring Board approval which had not been approved by the Board.

05-II-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

05-II-I Certified Annual Report - We noted that the Certified Annual Report was filed after the September 15, 2005 deadline.

Recommendation -We recommend that future reports be filed in a timely manner.

Response - We will file future reports in a timely manner.

Conclusion - Response accepted.

05-II-J Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.

05-II-K Public Hearing - The District did not hold a public hearing regarding the construction of a new bus barn. Chapter 73A of the Code of Iowa requires the holding of a public hearing prior to any public improvements projects exceeding \$25,000.

Recommendation - We recommend that the District take care to hold a formal public hearing as required. We noted in the minutes that this item was discussed at length at various times.

Response - We will hold the required hearings in the future.

Conclusion - Response accepted.

STRATFORD COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Required Statutory Reporting:
(continued):

05-II-L Bid Process - The District is in the process of constructing a new preschool facility. This facility will be partially funded by a loan from the USDA. We noted that the bids for the project were handled by the USDA office and the preschool board and were not formally taken by the Board of Education.

Recommendation - Since the funds for construction are to be handled through the school's financial records and a public hearing for the project was held by the District, bids should have been approved by the Board of Education. This can be done in cooperation with other interested parties, but must be formally approved by the District.

Response - We will comply with the recommendation.

Conclusion - Response accepted